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INTRODUCTION

The Office of Internal Audit performed a limited scope review of Michigan State Disbursement Unit (MiSDU) Automated Rejected Check Processing. The objective of our review was to assess the ability of the automated rejected check process and database to accurately capture all rejected check activity and provide an audit trail for all rejected checks.

The MiSDU currently processes checks received from employers for payment of child support withheld from their employees' pay. ACS, Inc. (ACS) operates the MiSDU under a contract with the FIA. The ACS mailroom opens all mail and delivers the checks to the scanroom. All but a few of the checks received are scanned into the ACS record keeping system (TMS). Some of the scanned checks are rejected out of TMS for various reasons. The checks that are not scanned are delivered directly from the mailroom to the scanroom personnel that handle the TMS rejected checks. Both the TMS rejected checks and the non-scanned checks are considered rejected checks. Rejected checks are subsequently reprocessed through TMS, returned to the payer, or given to the MiSDU/FIA Accountant for disposition. The rejected checks were formerly recorded and tracked on a manual log and put into a safe. An automated logging process and database has replaced the manual log. ACS scanroom personnel maintain the automated rejected check database and reconcile the Unprocessed Receipts database report (rejected checks that do not have a disposition) to the safe contents daily. At the end of each month ACS Finance personnel, who are independent of the scanroom personnel, do the reconciliation.

SCOPE

We performed a limited scope review of the automated logging process and database for the period from November 11, 2001 through March 31, 2002. Our limited scope review

was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

We utilized previous knowledge of the check reject process. We obtained the database records, TMS rejected check reports, return letters, reprocess/process documentation, and the manual logs of checks received from the scanroom maintained by the MiSDU/FIA Accountant. We tested the database to determine if all rejected checks were recorded and if the disposition of each check, as shown in the database, was accurate.

EXECUTIVE SUMMARY

Based on our review we conclude the database did not capture every rejected check and the completeness of the database is subject to some limitations based on the way ACS operates. Also, the rejected check database contains some data errors and cannot be completely relied upon to provide an audit trail for each rejected check. The use of invalid reject reasons in the database may effect the accuracy of the contractual performance measures. The reconciliations to the safe done by ACS personnel will not ensure the completeness or accuracy of the database.

ACS RESPONSE

ACS did not respond to our draft report.

FINDINGS AND RECOMMENDATIONS:

Completeness of Data in the Rejected Checks Database

1. The completeness of the database is subject to the following limitations although it appears to be automatically capturing all TMS rejected checks.

Some checks are not recognized as a check by TMS and the ACS operators are not properly setting the system. (We had identified this fact in our review of the prior manual logging process. At that time ACS stated they would have the operators set TMS so that all checks are recognized as a check.) These checks do not get automatically recorded to the database and must be manually entered. If they are not manually entered and do not happen to be in the safe at the end of the day, it is possible for them to never appear in the database.

There was a deleted batch. (ACS had previously indicated that no batches would be deleted from the TMS system.) Deleted batches create a situation where a check is rejected out of TMS but it does not show up as a rejected check because the batch was deleted. The consequences of a deleted batch are the same as described above for a check not recognized as a check.

All checks received from the mailroom are not automatically recorded to the database. These checks must be manually entered. If they are not manually entered and do not happen to be in the safe at the end of the day it is possible for them to never appear in the database. (If one of these checks is given to the MiSDU/FIA Accountant there is no independent record that can be used to help ensure proper handling by the MiSDU/FIA Accountant.)

There was not a requirement to document every transfer to and from the MiSDU/FIA Accountant. (See the comments below under Quality of Data in the Rejected Checks Database.)

WE RECOMMEND that: the ACS operators set the system to recognize every check, ACS management remove the ability to delete a batch from TMS, and the

scanroom staff responsible for the rejected check database record all checks from the mailroom upon receipt.

Quality of Data in the Rejected Checks Database

2. The rejected check database did not contain a proper audit trail for all checks because of incorrect, incomplete, and duplicate data as described below.

Of the 8,216 check records in the database, 349 showed multiple dispositions, 547 showed no disposition date, 11 showed a disposition date prior to the date received, and there were 63 duplicate records.

Each check record did not always have its own unique disposition. For example, if a rejected check was reprocessed but was rejected out of the reprocessing, the database would correctly show two check records. Instead of showing a unique disposition for the initial check record, however, both would remain open on the database until the check was finally successfully processed. Both records would then show the same disposition.

Some checks that were given to the MiSDU/FIA Accountant did not show “given to State” as a disposition. Generally, the check records that showed a different disposition were checks returned by the MiSDU/FIA Accountant to the scanroom the same day they were received from the scanroom. Only the ultimate disposition appeared to be entered on the database. There were other checks, however, that were received and returned to the scanroom (but not in the same day) and their disposition was “given to the State.” The difference in treatment creates confusion and reduces the reliability of the audit trail. Every transfer

outside of the scanroom should be recorded as a disposition at the time it occurs and every check received by the scanroom should be recorded as it is received.

The incorrect, incomplete, and duplicate data exists because the database did not contain restrictions/requirements on data entry.

WE RECOMMEND that the rejected check database produce a proper audit trail for all checks by:

- Allowing only one disposition per record.
- Requiring all disposition data is entered prior to the record being closed.
- Implementing data entry edit checks.
- Restricting the ability to overwrite an automatic entry.

Invalid Reject Reasons

3. Invalid TMS reject reasons, which may effect the accuracy of the contract performance measurements, were included in the rejected check database reject reason field. The reject reasons for 13 records were not valid TMS reject reasons. There were 590 manual entries to the database. The reject reason for 127 of the manual records was Mailroom. The reject reason for 397 of the manual records was ReadAsStub. These reject reasons for manual entries were also not valid TMS reject reasons.

WE RECOMMEND that the reject reason for an automatic entry to the database is the same as that used in TMS. Also, in order to maintain the audit trail and provide an appropriate reject reason for the performance measures, the scanroom staff responsible for the rejected check database needs to identify the manual

entries as such, as well as show a reject reason that corresponds with a valid TMS reject reason.

ACS Reconciliation to the Safe Contents

4. The reconciliation of the Unprocessed Receipts database report to the safe contents has not ensured/does not ensure the accuracy or completeness of the database. Past reconciliations have not resulted in corrections for accuracy as evidenced by the existence of duplicate check records and inaccurate disposition data. Also, if a check did not get recorded on the database and is not in the safe this reconciliation will not disclose its existence.

WE RECOMMEND that the scanroom personnel responsible for the rejected check database make the necessary corrections to the database.

WE ALSO RECOMMEND that ACS have a person independent of the scanroom staff randomly check the accuracy of the disposition data.